

Ms. Phyllis Biedess
Director
Arizona Health Care Cost
Containment System
801 East Jefferson
Phoenix, Arizona 85034

Dear Ms. Biedess:

We are pleased to inform you that we have approved demonstration project No. 11-W-00032/9-17, entitled "Arizona Health Care Cost Containment System -- AHCCCS, A Statewide Approach of Cost Effective Health Care Financing," for the period October 1, 1999, through September 30, 2002. Approval is under the authority of section 1115 of the Social Security Act (the Act). We apologize for the delay in sending you this award letter.

The budget for the 3-year period is as follows:

| <u>Time period</u> | <u>Federal funds</u> | <u>State funds</u> | <u>Total</u> |
|--------------------|----------------------|--------------------|-----------------|
| 10/1/99 - 9/30/00 | \$1,508,334,000 | \$810,363,000 | \$2,318,697,000 |
| 10/1/00 - 9/30/01 | \$1,614,579,000 | \$866,302,000 | \$2,480,881,000 |
| 10/1/01 - 9/30/02 | \$1,715,088,000 | \$919,025,000 | \$2,634,113,000 |

In each of the 3 years, the total budget includes \$122,876,000 for payments to disproportionate share hospitals (DSHs). These Federal fund amounts include only title XIX, that is, they exclude funding for KidsCare, Arizona's State Children's Health Insurance Program (SCHIP) funded under title XXI. The demonstration authority approved in this letter is subject to compliance with the enclosed special terms and conditions. Notification to our office of your acceptance of this award must be received within 30 days after you receive this letter.

We are approving your request to continue all currently authorized waivers and expenditure authorities, as contained in the fiscal year (FY) 1999 approval letter dated February 3, 1999, with the exception of waiver #7. This waiver had allowed Arizona to substitute the Arizona Long Term Care System (ALTCS) preadmission screening instrument (PAS) for the Social Security Administration's (SSA's) disability determination for SSI-eligible children under 18 who apply for ALTCS, to the extent this would not result in individuals being denied eligibility who would otherwise be eligible. However, since we are now approving your request to use the PAS for adults ages 18 through 64 in addition to continuing to use the PAS for children under 18, a waiver is no longer required.

As required by the FY 1999 Special Term and Condition #4, AHCCCS conducted a comparison of the PAS tool with the new SSI disability criteria for children implemented in accordance with the 1996 welfare reform law, in terms of restrictiveness based on severity of condition. This comparison, submitted to HCFA in July 1999, confirmed that the PAS is more restrictive than the SSI disability criteria in terms of the level of impaired function required to be at risk of institutionalization, and that use of the PAS has allowed Arizona to reduce the length of time it takes to determine eligibility for ALTCS. Therefore, since the PAS is achieving these intended results, we agree that its use should be continued for children under 18.

We are also approving your request to extend the use of the PAS (in this case, the version of the PAS for ages 12 and over), in lieu of the SSA's disability determination, to adults ages 18 through 64 who are applying for ALTCS. This will eliminate a duplicative medical evaluation process, reduce application processing time, eliminate costs associated with SSA's disability determination and provide essential services to applicants more expediently. This approval is subject to compliance with the new term and condition, expanded from the version previously in effect only for children under 18, that requires that Arizona will not deny Medicaid eligibility for any potentially disabled individual based on using PAS criteria in lieu of the SSI disability determination.

In addition, we are approving your request to provide behavioral health services in Institutions for Mental Disease (IMDs) for Medicaid-eligible persons ages 21 through 64. Title XIX reimbursement for IMDs will be limited to a maximum of 30 days per admission and an annual limit of 60 days per member. Enrollees who were residing in an IMD as of the date of this letter, but who were admitted prior to the date of this letter, will not be eligible for title XIX reimbursement for that stay. Enrollees who are admitted on or after the date of this letter will be eligible for title XIX reimbursement, subject to the 30/60 limits. Payment by AHCCCS to the Arizona Department of Health Services (ADHS) for the IMDs will be based on capitated arrangements or fee-for-service payments for eligible persons.

Your request to remove the home and community-based services (HCBS) cap for elderly and physically disabled (EPD) enrollees in ALTCS is also approved. Pursuant to the Supreme Court's decision in Olmstead v. L.C., the Department of Health and Human Services is expanding its efforts to encourage movement toward community integration. We recognize that AHCCCS has already made significant strides in this direction. In order to monitor your continued progress, we are asking that you report annually on current placements and ongoing activities for expanding HCB services and settings.

Under the authority of section 1115(a)(1) of the Social Security Act (the Act), waivers of the following provisions of the Act (and its implementing regulations) are granted for a 3-year period, effective October 1, 1999, to enable the State to carry out the demonstration:

1. To enable the State to impose cost sharing on mandatory services and to individuals enrolled in a health maintenance organization.

Section 1902(a)(14), (42 CFR 447.50 and 447.53)

2. To enable the State to restrict freedom of choice of provider. Among other things, this waiver will allow the State to restrict the freedom of choice of provider upon re-enrollment for individuals who lose eligibility and then become eligible again within 90 days.

Section 1902(a)(23), (42 CFR 431.51)

3. To enable the State to obtain flexibility in arranging reimbursement agreements with health care providers.

Section 1902(a)(13), (42 CFR 447.250 - 447.371) (except for the public notice provisions in 1902(a)(13)(A)); Section 1902(a)(30), insofar as it is implemented by the regulations cited above and by 42 CFR 434.23; Section 1902(a)(4), insofar as it is implemented by 42 CFR 434.23.

4. To enable the State to exclude hospitalized individuals and others not requiring long-term care (LTC) services from the optional institutionalized eligibility categories.

Section 1902(a)(10)(A)(ii)(V), (42 CFR 435.217 and 435.236)

5. To enable the State to receive payment for outpatient drugs without complying with the requirements of the Omnibus Budget Reconciliation Act of 1990 pertaining to drug rebate and drug use review.

Section 1902(a)(54), (42 CFR 456.700 - 456.725)

6. To enable the State to provide supported employment services to certain developmentally-disabled HCBS services clients.

Section 1902(a)(10)(B), (42 CFR 440.240)

7. To enable the State to disregard quarterly income totaling less than \$20 from the post-eligibility income determination.

Section 1902(a)(17), (42 CFR 435.725 and 435.726)

8. To the extent necessary to permit the State to offer different benefits to managed care organization enrollees that are not offered to Medicaid beneficiaries not enrolled.

Section 1902(a)(10)(B)(i)

Under the authority of section 1115(a)(2) of the Act, expenditures made by the State for the items identified below (which would not otherwise be included as matchable expenditures under section 1903) shall, for the period of this project, be regarded as matchable expenditures under the State's Medicaid State plan:

1. Expenditures for hospital services that would not otherwise be federally matchable due to the limits on matching in section 1903(i)(3).
2. Expenditures under contracts with managed care entities that do not meet the requirements in section 1903(m)(2)(A) specified below. AHCCCS' managed care plans participating in the demonstration will have to meet all the requirements of section 1903(m) except the following:
 - 1903(m)(2)(A)(i), but only insofar as the provisions of 1903(m)(1)(A)(i) would otherwise preclude Native Americans from having a choice to enroll in either Indian Health Service facilities or AHCCCS plans;
 - 1903(m)(2)(A)(vi) insofar as it requires compliance with the requirements in section 1932(a)(4) - that enrollees be permitted an initial 90-day period within which they can disenroll without cause.
 - 1903(m)(2)(A)(ix) to the extent that the State may provide federally qualified health center (FQHC) and rural health clinic (RHC) services through managed care providers, and not require payment to those FQHCs and RHCs in accordance with Medicare cost-based reimbursement.
 - 1903(m)(2)(A)(viii) and 1903(m)(4)(A) and (B), but only insofar as these provisions relate to disclosure of transactions between AHCCCS plans and parties in interest.

3. Expenditures associated with the provision of HCBS to individuals determined to be eligible and for services specified in the program. Those expenditures include, but are not limited to, the establishment of ALTCS eligibility for all individuals with income levels up to 300 percent of the SSI income level, whether institutionalized or non-institutionalized, as well as individuals enrolled in the ALTCS Transitional program; waiving parental income for children up to age 18; and imposing the share of cost and personal needs allowance requirements.
4. Expenditures for outpatient drugs which would otherwise be excluded by virtue of section 1903(i)(10).
5. Expenditures to extend ALTCS eligibility to individuals under the age of 65 using the preadmission screening instrument as a substitute disability standard.
6. Expenditures to provide continued medical coverage to children who meet the initial eligibility requirement as a deemed newborn without consideration of the mother's continued Medicaid eligibility.
7. Expenditures to provide family planning services for up to 24 months to AHCCCS-eligible women who subsequently lose eligibility at 60 days postpartum.
8. Expenditures for services to an AHCCCS enrollee age 21-64 residing in an IMD for the first 30 days of an inpatient episode, subject to an aggregate annual limit of 60 days. Enrollees who were residing in an IMD as of the date of the award letter, but who were admitted prior to the date of this letter, will not be eligible for title XIX reimbursement for that stay. Enrollees who are admitted on or after the date of the award letter will be eligible for title XIX reimbursement, subject to the 30/60 limits.

We are encouraged by your progress in the area of Quality Improvement, as summarized in your quarterly reports on this initiative and as described in your demonstration extension request. We look forward to the continued development and implementation of the various indicators and instruments, as well as to the continued assessment of health outcomes, quality of care, financial performance and solvency, access to and availability of care, and member and provider satisfaction. We also anticipate that you will continue to expand upon your analyses and interpretation of these data, including the measurement and analysis of value in a managed care environment.

The enclosed terms and conditions have been revised, in consultation with your staff, to incorporate the newly-approved provisions of your demonstration described above. Some references to dates have also been changed to reflect the fact that this approval covers a 3-

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year period. Finally, several reporting requirements have been streamlined. In some areas, AHCCCS will begin to submit interpretive summaries in place of the more detailed, but less user-friendly, materials that had been submitted in previous years. However, the more detailed reports will continue to be produced by AHCCCS for internal management purposes and will be available to HCFA upon request.

Your project officer continues to be Joan Peterson, who may be reached at (410) 786-0621. Communications regarding program matters should be sent to the project officer at the following address: Health Care Financing Administration, Center for Medicaid and State Operations, Family and Children's Health Programs Group, Division of Integrated Health Systems, Mail Stop S2-01-16, 7500 Security Boulevard, Baltimore, Maryland, 21244-1850. Administrative correspondence concerning the project should also be submitted to Ms. Peterson.

We look forward to working with you on the continued success of the AHCCCS program.

Sincerely,

Nancy-Ann Min DeParle
Administrator

Enclosure